

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1367 - SB 1427

January 10, 2014

SUMMARY OF BILL: Reduces the Hall Income Tax (HIT) rate from six percent to: 4.75 percent for tax year 2015, to 3.92 percent for tax year 2016, to 3.36 percent for tax year 2017, and to 2.25 percent on or after January 1, 2018. Changes the local government distribution rate, after any deductions for necessary administrative expenses, from 37.5 percent to: 47.40 percent for tax year 2015, 57.40 percent for tax year 2016, 67.00 percent for tax year 2017, and 100.00 percent on or after January 1, 2018.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue – Net Impact – \$52,400,100/FY15-16
\$87,091,700/FY16-17
\$110,598,000/FY17-18
\$157,021,500/FY18-19 and Subsequent Years**

**Increase Local Revenue – Net Impact – \$806,300/FY15-16
\$1,239,700/FY16-17
\$1,632,000/FY17-18
\$2,240,200/FY18-19 and Subsequent Years**

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes shall be applied to tax years beginning with tax year 2015, and assuming that 100 percent of HIT owed for tax year 2015 under current law would be collected no later than June 30, 2016, the first year impacted by this bill will be FY15-16. This collection pattern is assumed to remain constant into perpetuity under current law.

- Pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.50 percent of HIT revenue and local governments are apportioned 37.50 percent, after any deductions for necessary expenses for administration.
- Based on the apportionments of HIT collections for the last three fiscal years (FY10-11, FY11-12, and FY12-13), it is estimated that the state retains 65.19 percent of HIT revenue and local governments are apportioned 34.81 percent of the total HIT amounts collected, which is equivalent to 92.83 percent ($34.81\% / 37.50\%$) of the specified rate after deductions for necessary administrative expenses.
- The effective rate of distribution to the local government under this bill will be: 44.00 percent for tax year 2015 ($47.40\% \times 92.83\%$), 53.28 percent for tax year 2016 ($57.40\% \times 92.83\%$), 62.20 percent for tax year 2017 ($67.00\% \times 92.83\%$), and 92.83 percent on or after January 1, 2018 ($100.00\% \times 92.83\%$).
- The current Fiscal Review Committee estimate for HIT collections in FY14-15 is \$260,000,000, of which \$169,494,000 is the state portion ($\$260,000,000 \times 65.19\%$), and \$90,506,000 is the local government portion ($\$260,000,000 \times 34.81\%$). These numbers are assumed to remain constant in subsequent years under current law.
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.00 percent; the average local option sales tax rate is estimated to be 2.50 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.603 percent of state sales tax revenue as state-shared sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(q), no portion of revenue derived from the 0.5 percent sales tax rate increase, from 5.5 percent to 6.0 percent (effective April 1, 1992), or the 1.0 percent sales tax rate increase, from 6.0 percent to 7.0 percent (effective July 15, 2002), shall be distributed to local government.
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617% [$(5.5\%/7.0\%) \times 4.603\%$].

Assumptions related to FY15-16:

- The decrease in HIT revenue for the state in FY15-16 is estimated to be \$54,227,333 [$\$169,494,000 - (\$260,000,000 / 6.00\% \times 4.75\% \times (100.00\% - 44.00\%))$].
- The increase in HIT revenue for the local government in FY15-16 is estimated to be \$60,667 [$\$90,506,000 - (\$260,000,000 / 6.00\% \times 4.75\% \times 44.00\%)$].
- The total tax savings are estimated to be \$54,166,667 ($\$54,227,333 - \$60,667$).
- The net increase in state sales tax revenue in FY15-16 is estimated to be \$1,827,261 [$(\$54,166,667 \times 50.00\% \times 7.00\%) - (\$54,166,667 \times 50.00\% \times 7.00 \times 3.617\%)$].
- The total increase in local sales tax revenue in FY15-16 is estimated to be \$745,656 [$(\$54,166,667 \times 50.00\% \times 2.50\%) + (\$54,166,667 \times 50.00\% \times 7.00 \times 3.617\%)$].
- The net decrease in state revenue as a result of this bill in FY15-16 is estimated to be \$52,400,072 ($\$54,227,333 - \$1,827,261$).
- The total increase in local revenue as a result of this bill in FY15-16 is estimated to be \$806,323 ($\$60,667 + \$745,656$).

Assumptions related to FY16-17:

- The decrease in HIT revenue for the state in FY16-17 is estimated to be \$90,132,293 [$\$169,494,000 - (\$260,000,000 / 6.00\% \times 3.92\% \times (100.00\% - 53.28\%))$].
- The decrease in HIT revenue for the local government in FY16-17 is estimated to be \$1,040 [$\$90,506,000 - (\$260,000,000 / 6.00\% \times 3.92\% \times 53.28\%)$].
- The total tax savings are estimated to be \$90,133,333 (\$90,132,293 + \$1,040).
- The net increase in state sales tax revenue in FY16-17 is estimated to be \$3,040,562 [$(\$90,133,333 \times 50.00\% \times 7.00\%) - (\$90,133,333 \times 50.00\% \times 7.00 \times 3.617\%)$].
- The total increase in local sales tax revenue in FY16-17 is estimated to be \$1,240,771 [$(\$90,133,333 \times 50.00\% \times 2.50\%) + (\$90,133,333 \times 50.00\% \times 7.00 \times 3.617\%)$].
- The net decrease in state revenue as a result of this bill in FY16-17 is estimated to be \$87,091,731 (\$90,132,293 - \$3,040,562).
- The net increase in local revenue as a result of this bill in FY16-17 is estimated to be \$1,239,731 (\$1,240,771 - \$1,040).

Assumptions related to FY17-18:

- The decrease in HIT revenue for the state in FY17-18 is estimated to be \$114,457,200 [$\$169,494,000 - (\$260,000,000 / 6.00\% \times 3.36\% \times (100.00\% - 62.20\%))$].
- The increase in HIT revenue for the local government in FY17-18 is estimated to be \$57,200 [$\$90,506,000 - (\$260,000,000 / 6.00\% \times 3.36\% \times 62.20\%)$].
- The total tax savings are estimated to be \$114,400,000 (\$114,457,200 - \$57,200).
- The net increase in state sales tax revenue in FY17-18 is estimated to be \$3,859,175 [$(\$114,400,000 \times 50.00\% \times 7.00\%) - (\$114,400,000 \times 50.00\% \times 7.00 \times 3.617\%)$].
- The total increase in local sales tax revenue in FY17-18 is estimated to be \$1,574,825 [$(\$114,400,000 \times 50.00\% \times 2.50\%) + (\$114,400,000 \times 50.00\% \times 7.00 \times 3.617\%)$].
- The net decrease in state revenue as a result of this bill in FY17-18 is estimated to be \$110,598,025 (\$114,457,200 - \$3,859,175).
- The total increase in local revenue as a result of this bill in FY17-18 is estimated to be \$1,632,025 (\$57,200 + \$1,574,825).

Assumptions related to FY18-19 and Subsequent Years:

- The decrease in HIT revenue for the state in FY18-19 and subsequent years is estimated to be \$162,503,250 [$\$169,494,000 - (\$260,000,000 / 6.00\% \times 2.25\% \times (100.00\% - 92.83\%))$].
- The increase in HIT revenue for the local government in FY18-19 and subsequent years is estimated to be \$3,250 [$\$90,506,000 - (\$260,000,000 / 6.00\% \times 2.25\% \times 92.83\%)$].
- The total tax savings are estimated to be \$162,500,000 (\$162,503,250 - \$3,250).
- The net increase in state sales tax revenue in FY18-19 and subsequent years is estimated to be \$5,481,783 [$(\$162,500,000 \times 50.00\% \times 7.00\%) - (\$162,500,000 \times 50.00\% \times 7.00 \times 3.617\%)$].

- The total increase in local sales tax revenue in FY18-19 and subsequent years is estimated to be \$2,236,967 [$(\$162,500,000 \times 50.00\% \times 2.50\%) + (\$162,500,000 \times 50.00\% \times 7.00 \times 3.617\%)$].
- The net decrease in state revenue as a result of this bill in FY18-19 and subsequent years is estimated to be \$157,021,467 ($\$162,503,250 - \$5,481,783$).
- The total increase in local revenue as a result of this bill in FY18-19 and subsequent years is estimated to be \$2,240,217 ($\$3,250 + \$2,236,967$).

Assumption related to Secondary Economic Impacts:

- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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